

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Four)

Docket No. RM2020-11

PUBLIC REPRESENTATIVE COMMENTS

(August 20, 2020)

I. INTRODUCTION

The Public Representative hereby provides comments in response to Commission Order No. 5587.¹ In that order, the Commission established Docket No. RM2020-11 to receive comments from interested persons, including the undersigned Public Representative, that address the Postal Service's Petition to change analytical principles related to periodic reporting.² The Postal Service filed the Petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. With its Petition, the Postal Service also filed nonpublic materials relating to Proposal Four (USPS-RM2020-11/NP1).

The Commission issued Chairman's Information Request No. 1 on August 10, 2020.³ The Postal Service responded to CHIR No. 1 on August 17, 2020 and filed revised nonpublic materials relating to Proposal Four (USPS-RM2020-11/NP2).⁴

II. SUMMARY OF PROPOSAL FOUR

The Postal Service proposes changes to the ICRA reporting methodology for the use of outbound Foreign Post Settlement (FPS) system data to estimate international mail settlement expenses and to more accurately distribute outbound settlement expenses to international mail categories. Petition at 2.

¹ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), July 16, 2020.

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Changes in Analytical Principles (Proposal Four), July 13, 2020 (Petition).

³ Chairman's Information Request No. 1, August 10, 2020 (CHIR No. 1).

⁴ Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request No. 1, August 17, 2020 (Responses to CHIR No. 1).

III. BACKGROUND

The Postal Service states that the current procedure for distribution of outbound settlement expenses calculates two benchmark factors for the General Ledger accounts, one factor for account 53298 and another factor for account 53299. *Id.* The benchmarking process applies one factor across-the-board equally to the calculated settlement costs for all mail categories in account 53298 and a second factor across-the-board equally to the calculated settlement costs for all mail categories in account 53299. *Id.*

Proposal Four would use additional FPS mail category item and weight component expense data to benchmark to eight product and sub-product categories within the settlement expense accounts and replace the two factor methodology. *Id.* Using additional FPS data for outbound settlement expenses improves ICRA reporting by providing a finer level of mail category detail that: 1) eliminates the need to use single account-level factors to benchmark the expense amounts across all mail categories, and 2) is directly related to the eight product and sub-product categories in accounts 53298 and 53299. *Id.* at 3. The Postal Service asserts that the more detailed benchmarking structure already existed in the ICRA, but necessitated more detailed information which is now available from FPS. *Id.* at 4.

The Postal Service states that the overall impact of Proposal Four shifts approximately \$7 million of FY2019 expenses from market dominant products to competitive products. *Id.* at 3. Detailed assessments of the impact on particular products are presented in the two nonpublic attachments. *Id.* Nonpublic Attachment 1 displays the impact on total market dominant products and total competitive products, yielding a net impact of zero on total costs. *Id.* Nonpublic Attachment 2 is a comparison between the FY2019 NSA summary results filed using the current methodology and the proposed methodology. *Id.* at 4.

In the Responses to CHIR No. 1, the Postal Service states that most of the “questions, responses and impacts, while relevant to the ICRA more broadly, are all unrelated to the contemplated changes submitted for review as Proposal Four.”

Responses to CHIR No. 1 at 3. The Postal Service further asserts that “to provide a better comparison between the current methodology and the proposed methodology, trying to hold everything else constant, all of the adjustments and corrections that are discussed in these questions (but are unrelated to Proposal Four) are included in revised versions of the Reports (Unified), Attachment 1 and Attachment 2 Excel files, which are provided under seal in USPS-RM2020-11-NP2.” *Id.*

IV. COMMENTS

Based upon a review of the Postal Service’s Petition and Responses to CHIR No.1, including nonpublic materials filed under seal, the Public Representative finds that Proposal Four improves the accuracy of the Postal Service’s reporting. Specifically, the Public Representative finds that the proposed methodology improves the accuracy of distributing outbound settlement expenses in the ICRA. The proposed methodology expands the distribution from two general factors to eight individual categories. Overall, the Proposal Four methodology is reasonable and the Postal Service workbooks accurately incorporate the more granular data that is available from FPS data.

The impact from Proposal Four reduces the costs for market dominant products, while increasing the cost for competitive products. Even though the proposed methodology shifts \$7 from market dominant products to competitive products, competitive products as a whole still comply with 39 U.S.C. § 3633(a).⁵ The Public Representative commends the Postal Service for its efforts to more accurately distribute expenses between market dominant products and competitive products.

With regard to the impact on Negotiated Service Agreements (NSA), the Public Representative suggests that the Postal Service try to ensure that each NSA will cover its attributable costs, especially since some NSAs are individual products rather than part of a larger product grouping. Since Proposal Four results in higher competitive product costs, the cost for some NSAs will also increase; therefore, cost coverage for

⁵ Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

some NSAs will decrease. If any current NSA that is not part of a larger product grouping drops below full cost coverage due to the changes in Proposal Four, the Public Representative encourages the Postal Service to amend such NSA to bring it back to at least full cost coverage. For new NSAs, the Public Representative recommends that the Postal Service adjust NSA price structures accordingly to ensure full cost coverage.

With regard to CHIR No. 1, the Public Representative commends the Commission for identifying ICRA issues that are beyond the scope of Proposal Four and encourages the Postal Service to integrate these ICRA changes to better improve the accuracy of reporting in the future. The Public Representative compared the original attachments with the revised attachments and concludes that the wider changes to the ICRA would have minimal impact on the distribution of expenses from Proposal Four.

V. CONCLUSION

For the reasons discussed above, the Public Representative supports Proposal Four and recommends its approval. The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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